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SUBJECT: SCENESETTER FOR MARCH 3-4 VISIT BY S/EGCI DAVID GOLDWYN

1. (SBU) SUMMARY OF PROPOSED TRIP AGENDA: Embassy Georgetown welcomes you to Guyana March 3-4. On March 3 you are scheduled to meet with President Bharrat Jagdeo, Prime Minister Samuel Hinds, Foreign Minister Carolyn Rodrigues-Birkett, Finance Minister Ashni Singh, Bank of Guyana Central Governor Lawrence Williams, and Guyana Energy Agency CEO Mahender Sharma. Hotel reservations and motorpool arrangements are being made. Although we are waiting for confirmation for your meeting with Foreign Minister Rodrigues-Birkett and your lunch meeting with CEO Sharma, we expect both requests to be granted. Post will provide additional updates and briefing materials through email to S/CIEA's Joe Wang and Paul Hueper. END SUMMARY OF PROPOSED TRIP AGENDA; FOLLOWING TEXT PROVIDES SCENESETTER INFORMATION.

Overview and Context

2. (SBU) You are visiting at a particularly interesting time politically and economically. Local elections are anticipated for 2010 and national elections are scheduled for 2011. Local media have speculated that President Bharrat Jagdeo may either seek a constitutional amendment to allow a third term or seek to delay elections and continue as President beyond 2011. Economically, President Jagdeo is promoting growth in renewable energy and high-value, non-traditional agriculture through his Low Carbon Development Strategy (LCDS). While pursuing renewables under the LCDS, he is also seeking to develop off-shore oil and gas.

3. (SBU) Guyana has a population of 760,000, mostly along the Atlantic coast, a landmass equivalent to Idaho State, and a GDP of US1 billion. It faces many development challenges: a political climate that threatens the country's ability to consolidate democracy; weak democratic institutions and inconsistent rule of law; an HIV/AIDS epidemic that stifles the country's development and strains an already overburdened health sector; and an unstable security situation with bursts of violent upheaval. These factors all contribute to the highest rate of "brain drain" in the world - almost 90 percent of skilled professionals and college graduates move overseas.

¶4. (SBU) U.S. interests in Guyana are shaped within the context of these challenges and center on (1) stopping the spread of HIV and AIDS; (2) encouraging market-directed, socially responsible growth; (3) preventing visa fraud and illegal migration; (4) further consolidating democratic governance; and (5) protecting U.S. interests against transnational crime. Drug trafficking, alien smuggling and other transnational threats are increasing concerns threatening investment and development.

Mining Protest Impact

¶5. (SBU) Your visit also comes after several protests by mining workers over the GoG's new mining regulations to limit forest degradation as part of the LCDS. The proposed new regulations require miners to provide six months notice prior to mining, while giving the Guyana Forestry Commission (GFC) veto power over miners' activities. The gold and mining industry is one of the few industries that performed well in 2009. According to the Guyana

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Gold Board, small and medium scale miners declared a record 305,000 ounces in 2009, yielding nearly US\$300 million, one third of Guyana's GDP. The Guyana Gold and Diamond Miners Association (GGDMA) reported that the gold mining industry is projected to produce 500,000 ounces in 2010 and by 2015 over one million. Given such growth potential, miners are concerned that the new regulations will hurt business and affect their livelihood.

¶6. (SBU) Large scale protests held in late January and early February required President Jagdeo to intervene. He convened a stakeholders' meeting with miners on February 11 to clarify the GoG's position and allay fears. During that meeting, he signaled his belief that the Reducing Emissions from Deforestation and Forest Degradation (REDD) memorandum of understanding with the Government of Norway, which includes up to US\$250 million over five years, takes precedence over revenue generated from mining royalties. Implementing REDD remains a top priority of the Jagdeo administration, but an uncooperative mining sector could derail the Norwegian agreement.

The Political Scene

¶7. (SBU) Politics in Guyana have traditionally broken along racial lines, with overwhelming support among majority Indo-Guyanese for the People's Progressive Party/Civic (PPP/C) and equally polarized support from the slightly smaller Afro-Guyanese population for the People's National Congress/Reform (PNC/R). This trend continues, though inroads by the Alliance for Change (AFC) and other small parties suggest a lessening of racial identity politics. The PPP/C is the party in power. Bharrat Jagdeo has been President of Guyana since August 11, 1999, winning elections in 2001 and 2006. Active in the international scene, he has visited Kuwait, UAE, Iran and Russia in 2010. He also served as Chairman of CARICOM from July 1-December 31, 2009 and is currently serving as Chairman of UNASUR, which highlights Guyana's unique position within the Caribbean and Latin America.

¶8. (SBU) President Jagdeo exerts full control over the executive and legislative branches of government, and faces little pressure to devolve power to local government or semi-autonomous agencies. While the GoG includes a range of ministries and agencies which should play a role in managing oil and gas revenues, the Jagdeo administration's penchant for micromanagement suggests that oil and gas royalties would only intensify political wrangling over budget allocations. President Jagdeo is term limited; his second term expires in late 2011.

¶9. (SBU) Now more than a decade overdue, local government elections are anticipated to be held in 2010; re-registration is complete and a voter education campaign is underway, though so far voters show little enthusiasm for learning. Two other key issues need to be resolved in advance: 1) Parliament must constitute several commissions with oversight responsibilities for local governance; and 2) dedicated funding for municipalities, currently at the whim of various ministries, needs to be established. A bipartisan committee supposedly is looking at these issues, but it has made no substantive progress. Revenue-sharing from oil and gas royalties to local jurisdictions would be a politically complicated affair under the current system of local government financing.

Economic Conditions

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¶10. (SBU) Despite its richness in natural resources, the economy faces significant obstacles in reaching its full potential, including a shortage of skilled labor, poor infrastructure, and political instability. The country is entirely dependent upon imported petroleum products for energy generation, rendering it vulnerable to price volatility, as recently experienced in the commodities surge of 2007-08 when the rising price of crude had painful ripple effects on the cost of living, external balances, and the competitiveness of Guyana's products on the world market. The LCDS seeks to diminish this vulnerability by constructing a hydropower station at Amalia Falls, providing more than four times the county's current power consumption. In addition, the LCDS seeks to invest REDD payments in high-value, non-traditional agricultural products for export and other low-carbon sectors like business process services, as well as human capital necessary for a more knowledge-based economy. The LCDS does not envision developing oil and gas resources. Guyana's per capita GDP of approximately US\$1,300 makes it one of the poorest countries in the Western Hemisphere.

¶11. (SBU) In November 2009, CGX Inc., a Canadian oil firm, announced plans to begin exploratory drilling in Guyana's exclusive economic zone during 2010. CGX expects to begin production in 2011 and ramp up output to 300,000 barrels per day by 2016. ExxonMobil, Shell, Repsol, and other energy companies also hold petroleum prospecting licenses off-shore of Guyana. CGX is concerned that border disputes between Suriname and Guyana could potentially affect business development. Security is a major concern for the company.

¶12. (SBU) Between January 2008 and January 2010, the USAID-administered Millennium Challenge Corporation (MCC) Threshold Program i) helped reduce Guyana's fiscal deficit by restructuring the Guyana Revenue Authority (GRA), ii) streamlined the business registration process at the Deeds Registry, iii) modernized the GRA's customs procedures, and iv) effected several other complementary reforms at the Ministry of Finance, Guyana Office for Investment, Parliament, and National Procurement and Tender Administration. The Threshold Program represents a significant success for U.S. economic development efforts in Guyana. Lessons learned by Post during the program's implementation may usefully inform proposed interventions by the Energy Governance and Capacity Initiative in Guyana's fledgling oil and gas sector. In addition, the program's success in modernizing the GRA provides a better foundation on which the EGCI may build capacity among Government of Guyana (GoG) agencies in responsibly managing oil and gas royalties.

¶13. (SBU) Through implementing the Threshold Program, USAID/Guyana established effective working relationships with senior leadership within the GRA, transferred knowledge and skills to hundreds of its technical staff, and succeeded in transforming key components of the country's fiscal management - how it collects and accounts for taxes and sanctions delinquent taxpayers. Given this experience, Post believes that the EGCI could enjoy similar impact by deploying a similar program targeting the GRA and other relevant government

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agencies.

¶14. (SBU) The GRA's overall effectiveness and efficiency has been increased dramatically as a result of the program. While the GRA is probably not ready to administer a large surge in oil and gas revenue, it now has a functional organizational structure, a better trained technical staff, and good information technology systems for revenue management. Post believes this baseline of revenue management capacity is a suitable target for EGCI intervention in Guyana.

Currency

¶15. (SBU) USD is accepted at major hotels and businesses in Guyana. Credit cards are also accepted, but are not recommended for use. The exchange rate is 1USD equals roughly 200 GYD.
WILLIAMS